

22 August 1969

MEMORANDUM FOR: Chief, Information Processing Staff,
O/PPB

SUBJECT : Impact of New IBM Policy on Systems
Engineering Support

1. Background - On 23 June 1969, IBM announced a new pricing structure for its equipment and services which includes policy changes in software, educational services, systems engineering services, and hardware. This memorandum is concerned only with the effects of IBM changes in systems engineering support policy on Agency components with IBM systems installed.

2. Until this policy change, IBM has had a practice of providing help to its customers in installing and changing systems, designing new applications, and planning systems--at no cost other than that buried in the equipment price.* Because the Agency IBM account is fairly large, full-time on-site support has been provided by what are called Systems Engineers (SE's). The number of SE's (fully cleared) has ranged from two to eight for supporting the four Agency computer components with IBM equipment--RID, CRS, ORD, and OCS--as well as other staffs and components concerned with computer activities. The quality of this support has gradually improved to the point where the loss of it would be noticeable in OCS and perhaps critical to the other components. Personnel continuity has been good--a blessing since the Agency has been used for on-the-job training of IBM SE's. Motivation has been fairly good, probably because of IBM management's recognition of the potential market here. Some specific contributions of SE's: assistance in writing 360/20 utility programs,

*This support is distinct from the applications support to Agency components under contracts with the Federal Systems Division of IBM.

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testing of new versions of the operating system prior to implementation, installation of these new versions, installation of 360/67 software, consultation on software problems, liaison with elements of the complex IBM organization, and writing detailed specifications for new equipment orders. In addition, the SE's have informally helped us in the day-to-day maintenance of the operating system software, even though this responsibility is supposedly assigned to the Field Engineers (FE's, the group that also has hardware maintenance responsibility).

3. Under the new policy, there will be a charge for most of the SE functions, but some of them will continue to be "free." Corporate liaison, installation assistance, and information on hardware and software products will now be handled by account representatives, who are really salesmen. Their services obviously will be free. I understand IBM plans to have seven of these at Headquarters (perhaps converting some SE's into salesmen). There will be a charge for the remaining elements of traditional support, now formally called Systems Engineering Services. This will cover system analysis and design, application development, and installation evaluation and improvement. The line between these SE functions and those assigned to account representatives is very hazy.

4. SE services will be formalized through an "agreement" (not a contract) which spells out the work to be performed, inclusive dates, and estimated charges. The agreement imposes no real obligation on IBM other than to provide nameless manpower toward the tasks stated. Charges will be on an hourly basis (three-hour minimum) and will vary according to the complexity of the equipment systems involved. For Agency systems, this would amount to about \$25 or \$30 per hour. For larger projects with "more extensive IBM involvement," where they would be responsible for completion of specific projects, IBM now offers something called "Custom Contract Services," very similar to our current arrangements with IBM/FSD.

5. Until now, the SE support has been part of IBM's marketing organization, hence the hazy line between systems

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support and sales. Now the SE support and the Custom Contract Services for Federal Government customers will be shifted to a special unit of FSD. To assist customers in adjusting to this new policy, IBM will permit continuation of present "free" services on tasks that are mutually agreed upon and were under way or planned prior to the policy announcement. This interim arrangement must terminate by 1 January 1970.

6. Current Status - The IBM SE's on-site at Headquarters are distributed as follows:

2 OCS/APS, supporting the implementation of 360/67 software

3 OCS/OPS, general support

1/2 RID, general support

2 ORD, general support

1 1/2 CRS, general support

Total 9

7. The mutually agreed upon tasks noted in the above paragraph are now under negotiation. We expect to be able to justify continuation of the same level of "free" SE support (if not the same people) until January 1970.

8. A better statement is needed on the kind of help the account representatives would be willing to give us if no SE's or very few remained. We know in general what operating systems software support we will have to begin paying for; i.e., software packages for which a rental charge will be made.

9. GSA has not clarified the Government's position on this change. The negotiations for their contract with IBM for the current Fiscal Year are just getting under way. IBM is strongly

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motivated to complete these negotiations because there are no FY 70 revenues forthcoming until the contract is signed. GSA has alerted IBM that the policy change in the aggregate is not satisfactory but did not say which part of the whole package is troubling them. I suspect it is the modest decrease in hardware prices which hardly compensates for the increased costs for other services. Until the contract is signed, the IBM policy carries only the force of corporate intent, but I suspect that the favorable changes GSA can obtain will be in prices--not in reversing the over-all policy change. Customers in general are not well organized or well armed to contest the changes.

10. Mr. Ken Williams, the senior account representative here, has told me informally that he believes the SE pricing and tasking arrangements will not meet the test of the market place, that some shift toward the former arrangement will be made.

11. We have not assumed that we must continue IBM SE support--now at a price. The administrative arrangements will be very troublesome, defining IBM tasks will be difficult, the price is high, and personnel continuity and quality is doubtful. OCS is in a reasonably favorable position to cope with this change. With the exception of a few gaps in the time-sharing area, our knowledge requirements can be met internally; and our total manpower needs can be met by augmenting our staff (at a high training cost). At most, OCS would consider retention of one or two SE's after December 1969, but we have taken no action to make formal arrangements with IBM. I suspect that CRS and ORD (and to a lesser extent, RID) would continue to need IBM support, regardless of the disadvantages noted above, since they rely on the SE's daily for detailed assistance in systems problems.

11. Although this is a sensitive point, we have obviously given some thought to proposing Agency employment for some of the better SE's on board.

12. Action - I have asked Ken Williams to try to clarify the ground rules for "free" systems support. I have also suggested

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25X1 to [] of our Staff that he indicate our interest to GSA in bringing the user point of view into IBM contract negotiations (he has contact with senior ADP officials in GSA through his work on interagency groups). No other action to get further information seems reasonable at this point. The fuzzy state of affairs suggests that we move cautiously in committing ourselves to IBM one way or another.

13. Some contingency planning is called for, of course. Our interim plans for meeting internal needs include shifting two slots to the Technical Staff from elsewhere in the Operations Division and doing the ground work to justify augmenting our personnel ceiling in FY 71 in lieu of IBM SE support.

14. Other Agency components might also choose to gain some independence from IBM support, depending on their present personnel ceiling restrictions and their recruiting prospects. It has been suggested that OCS assume the role of providing such support for these components. Because there are some over-all advantages to this arrangement, it should be discussed in detail in the IPC arena. The disadvantages of this arrangement to these components are real also: they would be substituting the services of one organization for another, neither one being under their direct management control--a significant factor in this critical technical area. Our ability to provide good service can also be questioned, particularly in light of the diversity of the software systems that would have to be supported--several operating systems on several configurations, meeting several different needs.

[]
Acting Director of Computer Services

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cc: Information Processing Coordinators

